

## Message Text

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PAGE 01 BRASIL 02287 271325Z

63

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15 AID-05

EB-07 OMB-01 COME-00 TRSE-00 FRB-01 SEC-01 /080 W

----- 004299

R 262035Z MAR 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 8343

INFO AMCONSUL SAO PAULO

AMCONSUL RIO DE JANEIRO

UNCLAS BRASILIA 2287

E.O. 11652: N/A

TAGS: EFIN, BRAS

SUBJECT: CENTRAL

BANK INTERVENES IN IPIRANGA FINANCIAL  
GROUP

1. SUMMARY: THE CENTRAL BANK INTERVENED IN  
MARCH 25 IN THE IPIRANGAMINANCIAL GROUP,  
KE  
OF BRAZIL'S LARGEST FINANCIAL CONGLOMERATES,  
FOLLOWING THE DISCOVERY OF GRAVE IRREGULARITIES."  
FOREIGN CREDITORS ARE ASSURED BY CENTRAL BANK  
PRESIDENT THAT THE GROUP'S ESTERNAL OBLIGATIONS  
WILL BE MET IN FULL. END SUMMARY.

2. THE CENTRAL BANK ITERBRNRF YESTERDAY  
( MARCH 25) IN YET ANOTHER FINANCIAL GROUP. THIS  
TIME IT WAS THE IPIRANGA FINANCIAL GROUP, WHICH  
WITH THE 34 AFFILIATED FIRMS IS ONE OF BRAZIL'S  
LARGEST FINANCIAL CONGLOMERATES.

3. ACCORDING TO THE CENTRAL BANK ANNOUNCEMENT,  
THE IPIRANGA INTERVENTION, UNLIKE PREVIOUS  
INTERVENTIONS, WAS TRIGGERED BY THE DISCOVERY OF  
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PAGE 02 BRASIL 02287 271325Z

IRREGULARITIES WHICH MAY BE IN VIOLATION OF THE PENAL

CODE. AMONG THE IRREGULARITIES NOTED BY THE CENTRAL  
BAJC ANNOUNCEMENT WERE ILLEGAL STOCK TRANSACTIONS

BETWEEN THE IPIRANGA INVESTMENT BA A AND COMPANHIA  
BRAY LEIRA DE ADMJFISTRACAO AND PARTICIPACAO, BOTH  
OF WHICH WERE UNDER THE DIRECTORSHIP OF JULIO CESAR  
DE ARAUJO LUTTERBACH, WHO HAD 100 PERCENT OWNERSHIP  
IN LATTER FIRM. TOGEOWER WITH THE INTERVENTION,  
THE CENTRAL BANK THUS BROUGH LEGAL ACTION AGAINST  
JULIO CESAR DE ARAUJO LUTTERBACH.

4. THE IPIRANGA GROUP HAD BEEN IN DIFFICULTIES FOR  
SOME TIME. ON NOVEMBER 20, 1974, THE CENTRAL BANK  
INVITED THE BANCO DE CREDITO NACIONAL TO EXAMINE  
THE POSSIBILITY OF ACQUIRING CONTROL OF THE  
CONGLOMERATE. WHILE ANALYZING THE GROUP'S  
POSITION, BANCO DE CREDITO NACIONAL DISCOVERED A  
NUMBER OF IRREGULARITIES WHICH MADE A SINPLE  
MERGER IMPOSSIBLE AND LED THE CENTRAL BANK TO  
INTERVENE.

5. COMMENT: MONETARY AUTHORITIES HAVE BEEN  
TRYING FOR SOME TIME TO FOSTER A CONSOLIDATION OF  
WEAKER FINANCIAL GROUPS WITH SOUNDER INSTITUTIONS.  
THEY HAVE USUALLY TRIED TO BRING THIS CONSOLIDATION  
ABOUT BY MAKING BEHIND-THE-SCENES ARRANGEMENTS  
FOR MERGERS. THE INTERVENTION ROUTE WAS FIRST  
USED IN THE HALLES CASE IN APRIL 1974 AFTER THE CENTRAL  
BANK ACQUIRED, IN THE PREVIOUS MONTH, LEGISLATIVE  
AUTHORITY TO INTERVENE. IT WAS USED KOR THE SECOND TIME LAST  
MONTH WHEN THE AUTHORITIES INTERVENED IN THE  
RELATIVELY SMALL CRECIF FINANCIAL GROUP. BECAUSE  
OF THE ADVERSE PUBLICITY AND THE NEGATIVE  
PSYCHOLOGICAL IMPACT INTERVENTIONS HAVE HAD ON  
THE FINANCIAL COMMUNITY, THE AUTHORITIES HAVE  
TAKEN SUCH ACTIONS ONLY IN EXTREME CASES, I.E.,  
WHERE THERE HAS BEEN A CLEAR DANGER OF AN  
IMMEDIATE FINANCIAL COLLAPSE WITH NO POSSIBLE  
MERGER IN SIGHT, OR, AS IN THE CASE OF IPIRANGA,  
WHERE THERE HAS BEEN A CLEAR CASE OF ILLEGAL ACTIVITIES.

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PAGE 03 BRASIL 02287 271325Z

DURING A PRESS CONFERENCE AFTER ISSUING THE  
ANNOUNCEMENT, PAULO LIRA, PRESIDENT OF THE CENTRAL  
BANK, WAS REPORTED TO HAVE SAID THAT HE HAD SENT  
ASSURANCES TO FOREIGN CREDITORS THAT THE GROUP'S  
EXTERNAL OBLIGATIONS WOULD BE MET IN FULL, AND  
GAVE GUARANTEES TO LOCAL DEPOSITORS AND HOLDERS  
OF OTHER PAPERS ISSUED BY IPIRANGA THAT THEIR  
OBLIGATIONS WOULD BE MET WHEN THE GROUP'S AGENCIES

OPEN THEIR DOORS AGAIN NEXT WEDNESDAY.  
CRIMMINS

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